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Islamic Banking in Yemen in Light of the Arab Uprising: An Empirical Study from Customers' Perspective

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Abstract: The purpose of the study was to investigate the factors that influence the adoption of Islamic banking services in Yemen. Accordingly, a survey was conducted covering 300 respondents from most of the Yemeni regions and data analysis was based on structural equation modelling as well as descriptive and t statistics. The findings revealed that generally the Yemeni customers are willing to adopt Islamic banking services, while the main factors that influence this decision are the environmental influence as well as the decision making control.

Key words: Islamic banking, Republic of Yemen, sem, middle East

INTRODUCTION

Islamic banking can be simply defined as “banking in consonance with the ethos and value system of Islam and governed, in addition to the conventional good governance and risk management rules, by the principles laid down by Islamic law (shari’ah). Interest free banking is a narrow concept denoting a number of banking instruments or operations which avoid interest. Islamic banking, the more general term is expected not only to avoid interest-based transactions, prohibited in shari’ah, but also to avoid unethical practices and participate actively in achieving the goals and objectives of an Islamic economy” (Said *et al.*, 2009).

Subsequent to its initial establishment, the Islamic banking industry has witnessed a tremendous growth pattern and has maintained a remarkable growth potential, even compared to its conventional counterpart. This situation has been apparent in a number of countries, especially in the Gulf Cooperation Council (GCC) and Malaysia. However, several other countries, generally with large Muslim populations, are still untapped (ATKearney, 2012). This, particularly, refers to the other MENA countries (non-GCC).

In this respect, Islamic banking emerged in Yemen back in 1996, whereby a first Islamic bank by the name

Islamic Bank of Yemen for Finance and Investment (YSC) was established by virtue of the Act No. 21 of the Yemeni commercial law with an initial capital of USD10 million. In the same year, Tadhamon International Islamic Bank (TIIB) was subsequently established with a capital of USD 93 million. Currently, TIIB is considered one of the largest Islamic banks in Yemen with over 50 branches throughout the country. In 1997, Saba Islamic Bank (SIB) was subsequently established and grew at a fast pace to reach presently 18 branches in both Yemen and Djibouti. Subsequently, Shamil Bank of Yemen and Bahrain (SBYB) was established in 2002. In addition, there are a few conventional banks that use Islamic banking windows to provide Islamic banking services solely (CBY, 2009).

This growth trend has been accompanied by a considerable amount of empirical studies to examine the customers' sentiments regarding Islamic banking and its major instruments. Most of these studies applied the common attitudinal theories such as Theory of Reasoned Action (TRA), Theory of Planned Behaviour (TPB) and Theory of Innovations Diffusion (TID). These studies covered countries like Malaysia (Lada *et al.*, 2009; Abduh and Abdul Razak, 2012; Amin and Chong, 2011; Echchabi and Olaniyi, 2012; Alam *et al.*, 2012; Amin *et al.*, 2013; Khalek, 2014), Indonesia (Abduh and Omar, 2010), Morocco (Echchabi and Aziz, 2012), Nigeria

(Gumel and Othman, 2013), Tunisia (Echchabi *et al.*, 2014) and France (Echchabi and Echchabi, 2013). These studies have covered both Islamic banking in general and also covered specific sub-sets of Islamic banking and finance, including Islamic insurance, Islamic retail products and Islamic equity products.

It is noteworthy that the scope of these studies is relatively limited, which leaves the Islamic banking arena misty, especially in some MENA countries with majority Muslim population and a long and rich history of Islamic existence. Furthermore, most of these countries have either experienced Arab uprising or have been influenced by it by some way. This is, particularly, the case of Yemen which has passed through many months of uprisings resulting in a major change of political regime in 2011 accompanied with major social, economic and political reforms that were claimed by the Yemenis for many decades. The Yemeni context is currently still under-researched and under-scrutinised, though the country witnessed a considerable development of the Islamic banking and finance systems in the past few years.

Accordingly, it is also argued that the Yemeni people are religion and culture oriented, therefore, it is hypothesised that their adoption of any new product or service would usually depend on the Islamic aspect-its compliance with shari'ah. For instance, when a local insurance company called "United Insurance" introduced Islamic insurance services in 2008, around 80% of the existing customers shifted to these services (Saif and Abu Rumman, 2012).

Furthermore, Saif and Abu Rumman (2012) argued that this experience made the insurance sector in Yemen to realise the importance of Islamic finance services in attracting the Yemeni customers and investors and therefore, leading the Yemeni financial institutions to introduce Islamic finance services and to launch new institutions offering Islamic finance services.

Hence, the objective of this study was to examine the factors that influence the acceptance of Islamic banking services in Yemen in light of the changes that occurred in the country after the Arab uprising. In this regard, the previous studies have identified that TPB has a higher explanatory power compared to the remaining models (Armitage and Corner, 2001). Hence, the study applies TPB to achieve the aforementioned objective.

The original idea behind TPB emanated from the early study by Fishbein and Ajzen (1975) which emphasised the internal and external attitudinal aspects of the human behaviour. This effort amounted to the

establishment of TRA which suggest that the human behaviour is a result of a set of internal factors, namely the attitude toward behaviour and a set of external factors, namely, subjective norms. Subsequently, Ajzen (1991) formally established TPB by including a third dimension, namely, the control over the behaviour i.e., perceived behavioural control.

Specifically, attitude refers to the individual's positive or negative feelings about performing a given behaviour. Attitude has two main dimensions, namely, the belief about a specific behaviour and the evaluation of the outcome from this behaviour.

Subjective Norm (SN) is defined as the perception of the individual's main referent groups (people important to the individual) concerning the behaviour. The SN has two interrelated dimensions i.e., the determination of the main referent groups to the individual and their perception about the behaviour.

Finally, Perceived Behavioural Control (PBC) is the extent to which the individual feels to be able to perform the behaviour. PBC has generally two aspects, firstly the ability to perform the behaviour and secondly the extent to which the individual feels confident to perform the behaviour.

Based on the model in Fig. 1, attitude, subjective norm and perceived behavioural control have positive influence on the behavioural intention. Hence, the following hypotheses are posited and are tested in the following sections:

- **H1:** Attitude has a positive influence on the usage of Islamic banking services in Yemen

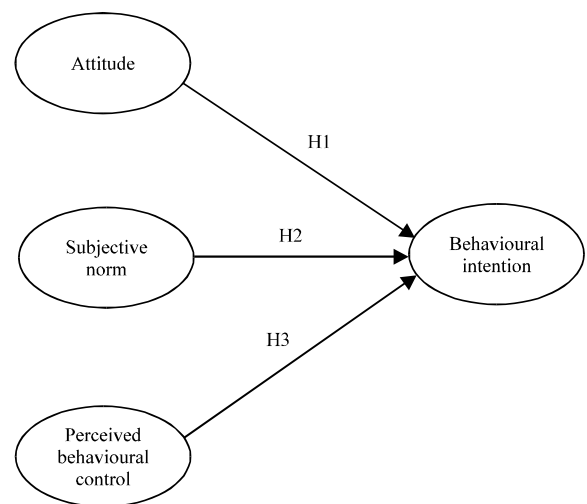


Fig. 1: Theoretical model

- **H2:** Subjective norm has a positive influence on the usage of Islamic banking services in Yemen
- **H3:** Perceived behavioural control has a positive influence on the usage of Islamic banking services in Yemen

METHODOLOGY

The study focuses on the Yemeni context. The target sample size was 300 respondents, out of the distributed questionnaires, only 202 were properly and completely filled up and returned. Thus, a response rate of over 67% was achieved, which is an acceptable rate (Dusuki and Abdullah, 2007).

The survey questionnaire was designed to collect information about the perception of the customers towards the attributes of the Islamic banking services as well as their intention to adopt and/or continue using it in their future transactions. For measuring this information, Likert type scaling was used (1 = strongly disagree and 7 = strongly agree). Twenty items were listed in this section and most of them were derived from the previous studies conducted in other countries as highlighted above, as well as from current Islamic banking and finance literature with necessary adaptations made for the specific context of the study. The second section of the questionnaire explored information about respondents' profile i.e., gender, age, marital status, employment status, etc. The questionnaire was made in English and was subsequently translated into Arabic and distributed as such.

The data were subsequently analysed using structural equation modelling, one sample t-test and descriptive statistics. The choice of this technique was inspired from Hair *et al.* (2010) as well as from similar studies conducted in this area. It is worth mentioning that the analysis was done through AMOS 18 and SPSS 18.

The sample included customers using Islamic banking services, customers using conventional banking services, as well as non-banking customers. In this respect, 66.8% are Islamic banking customers, 1% are conventional banking customers and 9.4% use both Islamic and conventional banking services, while 22.8% are non-banking customers.

Furthermore, the respondents' profile indicates that 95% of the respondents are male, while 5% only are female respondents. This small portion of female respondents might mainly due to the traditional and religious Yemeni culture, which is conservative by nature. Among these respondents, nearly 74% are married, while 26% are single.

Table 1: Respondents' profile

Demographics categories	Percentage
Gender	
Male	95.0
Female	5.0
Age (years)	
20-30	63.4
31-40	28.2
41-50	5.0
Above 50	3.5
Education level	
Diploma	23.3
Professional certificate	8.9
Bachelor's degree	59.4
Master's degree	5.9
Ph.D degree	2.5
Marital status	
Married	73.8
Single	26.2
Occupation	
Public sector	25.3
Private sector	60.9
Self-employed	6.9
Student	6.9
Usage of banking services	
Islamic banking	66.8
Conventional banking	1.0
Both	9.4
None	22.8

Similarly, Table 1 indicates that 63.4% of the respondents are between 20 to 30 years, 28.2% are between 31 and 40 years, 5% are between 41 and 50 years and 3.5% are above 50 years. On the other hand, nearly 60% of the respondents hold a Bachelor's degree, 23.3% are holding a diploma, 8.9% are holding professional certificates and 5.9% are holding Master's degree, while 2.5% of the respondents are holding PhD degree. In addition, over 60% of the respondents are working in the private sector, 25.3% are holding positions with the public sector, 6.9% are self-employed and the other 6.9 of the respondents are students.

RESULTS

Reliability and validity measures: The mean values in Table 2, Fig. 2 show high values that are also significantly greater than the neutral value of four. These values indicate that the customers have a positive perception regarding the principles and operations of Islamic banking.

Furthermore, subjective norm is also marked by high mean values that are also significantly greater than the neutral value of four. These values indicate that the decision making by the Yemenis is generally collective, whereby due reference is usually made to the opinions of parents, siblings, peers and colleagues prior to decision making. This is compatible with the cultural and religious orientation of majority of the Yemeni population.

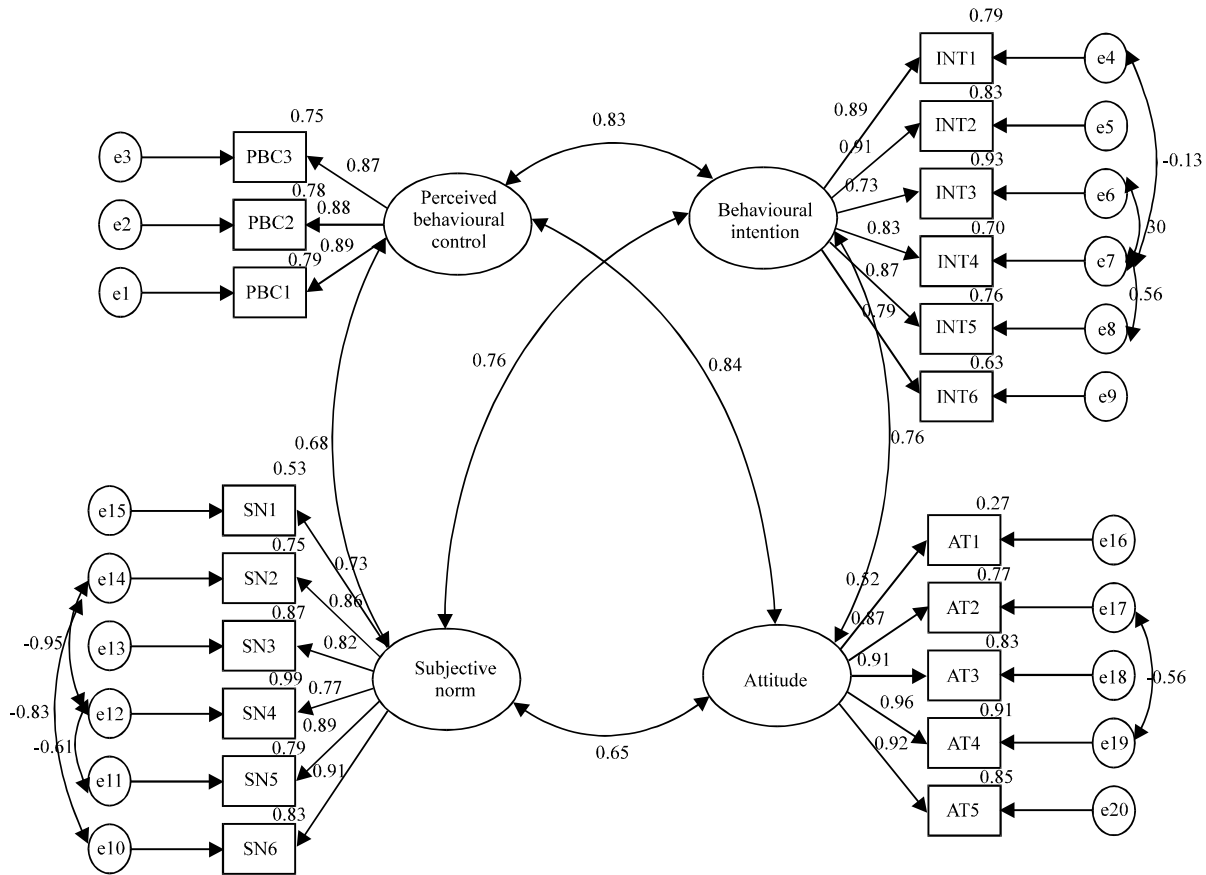


Fig. 2: Measurement model

Table 2: Mean, standard deviations and t values

Items	Mean	Standard deviation	t
Attitude	5.8257	1.24578	20.829***
AT1	5.4059	1.36901	14.596***
AT2	5.9158	1.48888	18.288***
AT3	5.9455	1.39723	19.790***
AT4	5.8812	1.47811	18.088***
AT5	5.9802	1.43156	19.660***
Subjective norm	5.0602	1.39876	10.772***
SN1	4.9257	1.65401	7.955***
SN2	4.8267	1.83245	6.412***
SN3	5.1400	1.69881	9.538***
SN4	5.3366	1.56311	12.153***
SN5	5.0429	1.61129	9.199***
SN6	5.0891	1.58726	9.752***
Perceived behavioural control	5.6254	1.32082	17.490***
PBC1	5.5545	1.53549	14.388***
PBC2	5.8168	1.34242	19.235***
PBC3	5.5050	1.41860	15.078***
Behavioural intention	5.7409	1.20753	20.490***
INT1	5.7376	1.55671	15.864***
INT2	5.8663	1.24467	21.311***
INT3	5.5728	1.44328	15.488***
INT4	5.5842	1.39128	16.183***
INT5	5.6150	1.46494	15.668***
INT6	6.0693	1.17399	25.052***

***indicates significance at 1%

In addition, the mean values for perceived behavioural control are significantly greater than the

neutral value of four. This indicates that the Yemenis have the necessary requisites to use Islamic banking services, including basic knowledge and awareness of Islamic banking principles and operations, the financial and logistic ability and the environmental readiness to support Islamic banking services. This may be justified by the lengthy period of existence of Islamic banking in Yemen since 1996.

Finally, the mean values for behavioural intention are significantly greater than the neutral value of four. This reveals the willingness of the Yemenis to opt for Islamic banking services and/or their satisfaction about their performance.

In order to address the reliability and validity of the estimations, two main measures are emphasised namely, convergent and discriminant validity. The former refers to the requirement that a number of items measuring a given construct should share high proportion of common variance, while the latter refers to the basic requirement that each construct in the model is significantly distinct from the remaining constructs.

Convergent validity is usually assessed via three measures, namely the Cronbach reliability Alpha, the

Table 3: Reliability measures

Reliability measures	Cronbach alpha	AVE
Perceived behavioural control	0.910	0.850
Attitude	0.919	0.764
Subjective norm	0.918	0.714
Behavioural intention	0.937	0.766

Table 4: Discriminant validity

Elements	Chi square	DF
Baseline model	648.092	157
Restricted model	711.591	163
Change	63.499	6

Table 5: Standardised total effects

Parameters	Attitude	Subjective norm	Perceived behavioural control
Intention	0.126	0.343*	0.496*

Average Variance Extracted (AVE) and the factor loadings. It is suggested that a Cronbach Alpha greater or equal to 0.6 is acceptable, similarly, an acceptable level of AVE and factor loadings should be 0.5 and above (Hair *et al.*, 2010). The results in Table 3 indicate that the Cronbach Alpha and AVE values are greater than 0.5, thus these are acceptable reliability values. Similarly, all the factor loadings are found to be greater than 0.5. Hence, convergent validity is achieved in this model.

On the other hand, discriminant validity is assessed by fixing the correlation between the model constructs to 1 and the resulted fit indices are subsequently compared to those of the baseline model. In this respect, the model is suggested to achieve discriminant validity if the two models' fit indices are significantly different.

In this regard, Table 4 displays the Chi square and degree of freedom for the baseline and restricted models, as well as the difference between them. The Chi square value for the baseline model is 648.092 and 711.591 for the restricted model. Similarly, the baseline model has 157 degree of freedom and 163 for the restricted model. Hence, the change in Chi square is 63.499 and 6 for degree of freedom. By comparing the Chi square difference and the tabulated Chi square value corresponding to a degree of freedom of 6 and a confidence margin 0.05 i.e., 12.59, it can be seen that the Chi square difference is greater than the tabulated Chi square value (63.499 > 12.59). Hence, the fit indices for the baseline and restricted models are significantly different, which signifies that discriminant validity is achieved in this model.

Finally, the results indicate that the model's Comparative Fit Index (CFI) is 0.888 and RMSEA value is 0.125 and a normed Chi square value of 4.128. These values are acceptable for the mentioned indicators (Broyles *et al.*, 2010; Singh *et al.*, 2013; Kim and Forsythe, 2010), hence, the overall model is validated.

Structural model: The results in Table 5 and Fig. 3 indicate that attitude does not have a significant effect on the intention to use Islamic banking services in Yemen. Hence, Hypothesis 1 is rejected. This contradicts TPB (Ajzen, 1991). This implies that the mere economic perceived superiority of Islamic banking services and their compliance with shari'ah is not sufficient in attracting the Yemeni customers; rather, other dimensions seem to be more weighing. This includes the influence of the customers' main referent groups as well as their own ability to opt for Islamic banking services, especially in the current era which was highly marked by post-Arab uprising social and economic reforms.

On the other hand, subjective norm is found to have a significant positive effect on the intention to use Islamic banking services in Yemen. Hence, Hypothesis 2 is supported. This is in line with TPB (Ajzen, 1991). This actually implies that the decision of the Yemeni customers to opt for Islamic banking services is highly dependent on referent groups' perceptions and opinions, including parents, siblings and peers. Hence, the marketing strategies for Islamic banks in Yemen should be collective in nature and should target these groups of individuals.

Finally, perceived behavioural control has a significant positive impact on the intention to use Islamic banking services in Yemen. Hence, Hypothesis 3 is supported. This is in line with TPB (Ajzen, 1991). This reveals that the Yemeni customers perceive and they are able-in terms of decision control, in terms of means and also in terms of knowledge to subscribe to Islamic banking services if they are willing. In this regard, it is worth noting that the overall social, political and economic arena in most of the Arab countries-especially those that experienced the Arab uprising-started improving in light of the Arab uprising, this includes various economic, social and political reforms that enhanced the overall wellbeing of the society. These reforms are believed to have contributed and will continue contributing to the development of Islamic banking system in the region.

Thus, among the three explanatory variables initially included, two factors are found to be significantly influencing the intention of the Yemeni customers to opt for Islamic banking services instead of their conventional counterpart. Specifically, subjective norm and perceived behavioural control, both explain 65% of the variation in the behavioural intention.

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